

## **RESOLUTION NO. 2010-35**

**A RESOLUTION** of the City Council of Bainbridge Island, Washington, establishing a Financial Recovery Program for 2011 and 2012.

**WHEREAS**, on August 13, 2010 Moody's Investor Services downgraded to Aa3 from Aa2 the rating for the City's outstanding unlimited tax general obligation bonds and also downgraded to A1 from Aa3 the City's limited tax general obligation bonds; and

**WHEREAS**, Moody's found that the City had a negative general fund balance in both 2008 (-\$200,000) and 2009 (-\$48,000) and Moody's believes the City's significantly narrowed financial position limits its financial flexibility and its ability to manage future fiscal challenges; and

**WHEREAS**, Moody's stated that the City's aggressive cash-funded capital spending over the past several years, combined with a slowdown in economically sensitive sales tax and new construction fee-related revenues have severely weakened the city's financial position to lean levels. Staffing-related expenditures grew concurrently, and the city undertook new capital spending, which both outpaced revenue growth; and

**WHEREAS**, Resolution No. 2008-01 reaffirmed the City's reserve policies with the goal of maintaining the highest possible credit rating for all categories of General Obligation debt; and

**WHEREAS**, Resolution No. 2008-01 established an Emergency Rainy Day Reserve Fund to pay for unexpected emergencies that cannot reasonably be accommodated by current budget appropriations. The Resolution set the amount of the Emergency Rainy Day Reserve Fund at no less than 5% of unrestricted General Fund revenues; and

**WHEREAS**, Resolution No. 2008-01 also established a Contingency Reserve to pay for unexpected needs that were not provided for in the annual budget and for minor shortfalls in budgeted appropriations. The Resolution set the amount of the Contingency Reserve at no less than 5% and no more than 8% of unrestricted General Fund revenues; and

**WHEREAS**, if the City fully funded the Emergency and Contingency Reserves at levels set by existing budget policies the total would amount to 13% of general fund revenues. However, Moody's notes the City's reserve goals are well below Moody's Aa3 Washington cities median of 22.7% of general fund revenues. In light of the current economic downturn, these reduced reserve levels have put the City in a position of challenged financial flexibility to offset additional near term fiscal pressures; and

**WHEREAS**, Resolution No. 2009-34 defined "Working Capital" and established a target for end-of-year Working Capital for the tax-supported funds at an amount equal to two months of tax-supported fund recurring revenue; and

**WHEREAS**, the City Council desires to use the term "General Fund Stability Reserve" instead of "Working Capital." "General Fund Stability Reserve" is defined as the excess of current assets over current liabilities, which is an unreserved, undesignated and unrestricted resource that remains part of the general fund budget. The Stability Reserve will provide the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic tax collection schedule. The Stability, Contingency and Emergency Reserves will provide financial stability and flexibility and will allow the City to respond to unexpected adversity and/or opportunities without having to resort to short term borrowing; and

**WHEREAS**, the adopted 2010 budget did not create a Contingency Reserve nor did it establish adequate Emergency or Stability Reserves. As a result the City was forced to borrow \$600,000 from the Water Utility in January 2010 in order to pay for operating expenses due from the General Fund; and

**WHEREAS**, Moody's outlook for the City is negative because any improvement in general fund ending balance will be challenged near-term due to strained growth in certain revenues and reliance on one-time property sales to achieve general fund balance policy levels; and

**WHEREAS**, it is the City Council's intent to adopt a biennial budget for 2011-12 that establishes Contingency, Emergency and Stability Reserves at 100% of the levels established by existing budget policies by the second year of the biennium; and

**WHEREAS**, the City Council desires to establish a Financial Recovery Plan that will provide explicit and unambiguous policy guidance to the City Manager for preparing the proposed biennial budget for 2011-12; now, therefore,

**THE CITY COUNCIL OF THE CITY OF BAINBRIDGE ISLAND DOES RESOLVE AS FOLLOWS:**

**Section 1. Classification and Prioritization of City Services** -- In the proposed biennial budget for 2011-12, the City Manager shall classify every program and service currently provided by the City as either Mandatory or Discretionary. Mandatory services are those which municipalities must provide under City, state, or federal law. Discretionary services are those that the City has chosen to provide but are not required by law. For each Mandatory or Discretionary Service, the City Manager shall detail the costs of providing the service in both dollars and FTEs. For each Mandatory Service the City Manager shall make a recommendation for the level of service to be provided. For each Discretionary Service the City Manager may make a recommendation for the level of service to be provided and may also recommend elimination of funding for a service or program.

Section 2.     **Reserves** – The following reserve levels shall be established in the proposed 2011-12 biennial budget:

2011 Budget

Contingency Reserve:	\$ 400,000
Emergency Reserve:	\$ 500,000
General Fund Stability Reserve:	<u>\$1,500,000</u>
Total Reserves:	\$2,400,000 (50% of budget policies)

2012 Budget

Contingency Reserve:	\$ 800,000
Emergency Reserve:	\$1,000,000
General Fund Stability Reserve:	<u>\$3,000,000</u>
Total Reserves:	\$4,800,000(100% of budget policies)

Section 3.     **Roads Capital Preservation Program** – The Roads Capital Maintenance & Preservation Program shall be funded at the following levels in the proposed 2011-12 biennial budget:

2011 Budget:	At least \$400,000
2012 Budget:	At least \$400,000

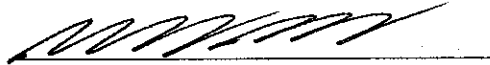
Section 4.     **Capital Facilities Plan** – All projects that are scheduled in the 2009-14 CFP shall be postponed for one year unless the City has already identified the sources of funds and the staffing resources necessary to complete the project or unless the projects are required by law or are necessary major maintenance funded by regular operating budgets. The City Council will complete a full update of the 2011-2016 CFP by June 30, 2011.

Section 5.     **New Projects and Preliminary Work** – City funding shall not be allocated for any new project or any preliminary work on a project until a revenue stream and staffing resources have been identified that will fully support the completion of the project.

PASSED by the City Council this 8<sup>th</sup> day of September, 2010.

APPROVED by the Mayor this 8<sup>th</sup> day of September, 2010.

By:



Bob Scales, Mayor

ATTEST/AUTHENTICATE:

By: Rosalind D. Lassoff  
Rosalind D. Lassoff, City Clerk

FILED WITH THE CITY CLERK:  
PASSED BY THE CITY COUNCIL:  
RESOLUTION NO.

September 8, 2010  
September 8, 2010  
2010-35